***AQA AS Economics exam practice answers***

5 The market mechanism, market failure and government intervention in markets

**1** **Correct answer: C** create negative externalities [1]

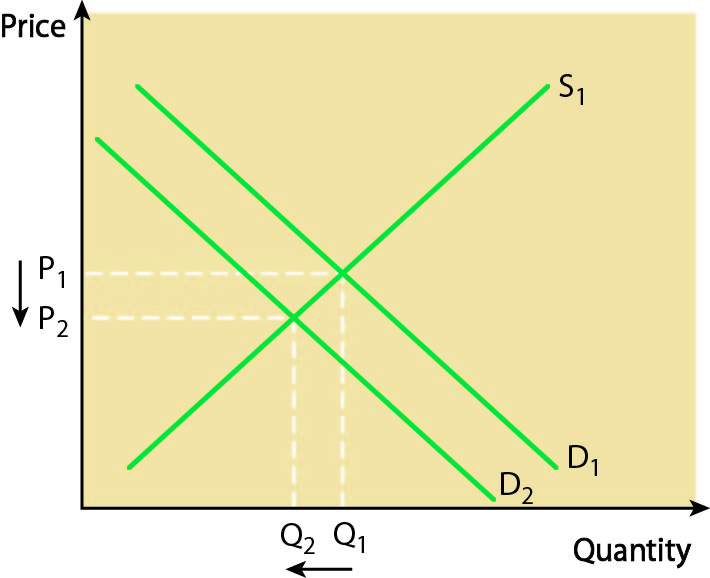
**2 Correct answer: C** a demerit good [1]

**3 Correct answer: A** provides public goods [1]

**4 Correct answer: D** improving the availability of information to consumers [1]

**5 (a)** A good that would be over-consumed in a free market, e.g. alcohol, tobacco, unhealthy food [3]

**(b)** Diagram is as follows:

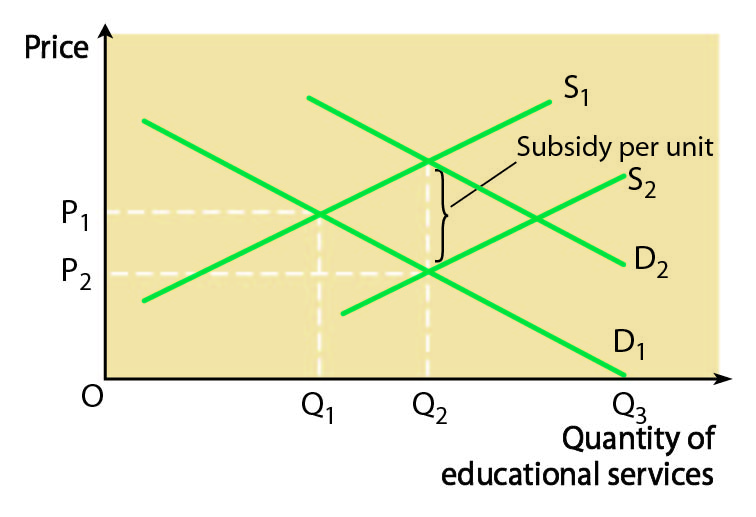


A correct diagram gains 4 marks; examiners will also credit one drawn with MSC = MPC, MPB > MSB.

Relevant points include:

* over-consumption arising from people being unable to appreciate the long-term costs to themselves and to society; unhealthy food being too cheap
* information failure
* definition and explanation of nature of demerit goods [8]

**6** A correct diagram, as below, earns 4 marks:



Relevant analysis includes:

* definition of a merit good
* definition of a subsidy
* explanation of how a subsidy encourages greater provision and consumption by reducing price and increasing supply [8]

**7** Relevant points for analysis include:

* definition of merit goods
* accurate diagram
* reasons for under-consumption — people are unable to appreciate the long-term benefits to themselves and to society; education too expensive in a free market
* information failure
* methods of intervention, e.g. maximum prices, government provision, subsidy, correcting information failure

Relevant points for evaluation include:

* strengths and potential drawbacks of each method of intervention
* overall judgement
* scope for government failure [25]